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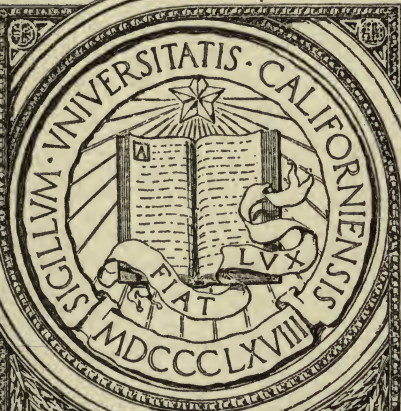
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Government Ownership
of Railroads,
and
War Taxation



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THE
NATIONAL INDUSTRIAL CONFERENCE BOARD

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I

GOVERNMENT OWNERSHIP OF RAILROADS

PATERNALISTIC control, even when entirely benevolent in intent, is generally harmful in effect. It is apt to be doubly so when, as sometimes occurs, it is punitive in intent.

The history of our railroads in the last ten years is a case in point.

In their early youth our railroads were allowed to grow up like spoiled, wilful, untamed children. They were given pretty nearly everything they asked for, and what they were not given freely they were apt to get somehow, anyhow. They fought amongst themselves and in doing so were liable to do harm to persons and objects in the neighborhood. They were overbearing and inconsiderate and did not show proper respect to their parent, i. e., the people.

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But the fond parent, seeing how strong and sturdy they were and on the whole, how hustling and effective in their work, and how, with all their faults of temper and demeanor, they made themselves so useful around the house that he could not really get along without them, only smiled complacently at their occasional mischief or looked the other way. Moreover, he was really too busy with other matters to give proper attention to their education and upbringing.

As the railroads grew towards man's estate and married and begot other railroads, they gradually sloughed off the roughness and objectionable ways of their early youth, and though they did not sprout wings, and though once in a while they still did shock the community, they were amazingly capable at their work and really rendered service of inestimable value.

But meanwhile, for various reasons and owing to sundry influences, the father had grown testy and rather sour on them. He cut their allowance, he restrained them in various ways, some wise, some less so, he changed his will in their disfavor, he showed marked preference to other children of his. And one fine day, partly because he was annoyed at the discovery of some wrongdoing in which, despite his repeated warnings, a few of the railroads had indulged (though the overwhelming majority were blameless) and partly at the prompting of plausible self-seekers or well-meaning specialists in the improvement of everybody and everything—one fine day he lost his temper and with it his sense of proportion. He struck blindly at the railroads, he appointed guardians (called commissions) to whom they would have to report daily, who would prescribe certain rigid rules of conduct for them, who would

henceforth determine their allowance and supervise their method of spending it, etc.

And these commissions, naturally wishing to act in the spirit of the parent who had designated them, but actually being, as guardians are liable to be, more harsh and severe and unrelenting than he would have been or really meant to be, put the railroads on a starvation diet and otherwise so exercised their functions, with good intent, doubtless, in most cases, that after a while those railroads, formerly so vigorous and capable, became quite emaciated and several of them succumbed under the strain of the regime imposed upon them. And then, seeing their condition and having need, owing to special emergencies, of railroad services which required great physical strength and endurance, one fine morning the parent determined upon the drastic step of taking things into his own hands. And so forth

II

To drop the style of story-telling: Individual enterprise has given us what is admittedly the most efficient railroad system in the world. It has done so whilst making our average capitalization per mile of road less, the scale of wages higher, the average rates lower, the service and conveniences offered to the shipper and the traveler greater than in any other of the principal countries.

It must be admitted that in the pioneer period of railroad development, and for some years thereafter, numerous things were done, and although generally known to be done, were tolerated by the Government and the public, which should never have been permitted. But during the second administration and upon the

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courageous initiative of President Roosevelt these evils and abuses were resolutely tackled and a definite and effective stop put to most of them. Means were provided by salutary legislation, fortified by decisions of the Supreme Court, for adequate supervision and regulation of railroads.

The railroads promptly fell in line with the countrywide summons for a more exacting standard of business ethics. The spirit and practices of railroad administration became standardized, so to speak, at a moral level certainly not inferior to that of any other calling. It is true, certain regrettable abuses and incidents of misconduct still came to light in subsequent years, but these were sporadic instances, by no means characteristic of railroading methods and practices in general, condemned by the great body of those responsible for the

conduct of our railroads, no less than by the public at large, and entirely capable of being dealt with by the existing law, possibly amended in nonessential features, and by the force of public opinion.

Unfortunately, the law enacted under President Roosevelt's administration was not allowed to stand for a sufficient length of time to test its effects. The enactment of new railroad legislation in 1909, largely shaped by Congressmen and Senators of very radical tendencies and hostile to the railroads, and acquiesced in by President Taft with ill-advised and opportunist complacency, established, for the first time in America, paternalistic control over the railroads. It was an unscientific and ill-devised statute, gravely defective in important respects and bearing evidence of having been shaped in heat, hurry and anger. Mr. Taft himself, it seems, has since recognized its faultiness,

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for he has repeatedly and publicly protested against the over-regulation, the starvation and the oppression of the railroad which were the inevitable and easy-to-be-foreseen consequences of its enactment.

The States, to extent that they had not already anticipated it, were not slow to follow the precedent set by the Federal Government. The resulting structure of Federal and State laws under which the railroads were compelled to carry on their business, was little short of a legislative monstrosity.

III

You all know the result. The spirit of enterprise in railroading was killed. Subjected to an obsolete and incongruous national policy, hampered, confined, harassed by multifarious, minute, narrow, and sometimes flatly contradictory regulations and restrictions, State and Federal, starved as to rates in the face of steadily mounting costs of labor and materials—that great industry began to fall away. Initiative on the part of those in charge became chilled, the free flow of investment capital was halted, creative ability was stopped, growth was stifled, credit was crippled.

The theory of governmental regulation and supervision was entirely right. No fair-minded man would quarrel with that.

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The railroads had exercised great, and in certain respects undoubtedly excessive power for a long time, and all power tends to breed abuses and requires limitations and restraints. But the practical application of that theory was wholly at fault and in defiance of both economic law and common sense. It was bound to lead to a crisis.

It is not the railroads that have broken down, it is our railroad legislation and commissions which have broken down.

And now the Government, in the emergency of war, probably wisely and, in view of the prevailing circumstances, necessarily, has assumed the operation of the railroads.

The Director General of Railroads, rightly and courageously, proceeded to do immediately that which the railroads for years had again and again asked in vain to be permitted to do—only more so.

Freight rates were raised twenty-five per cent., passenger rates in varying degrees up to fifty per cent. Many wasteful and needless practices heretofore compulsorily imposed were done away with.

Passenger train service, for the abolition of some of which the railroads had petitioned unsuccessfully for years, was cut to the extent of an aggregate train mileage of over 47,000,000.

The system of pooling for which since years many of the railroads had in vain endeavored to obtain legal sanction was promptly adopted with the natural result of greater simplicity and directness of service and of considerable savings.

The whole theory under which intelligent, effective and systematic co-operation between the different railways had been made impossible formerly, was thrown into the scrap heap.

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Incidentally, certain services and conveniences were abolished, of which the railroad managements would never have sought to deprive the public, and the very suggestion of the abrogation of which would have led to indignant and quickly effective protest had it been attempted in the days of private control.

Lest this remark might be misunderstood, let me say that I have no word of criticism against Mr. McAdoo's administration of the railroads, as far as I have been able to observe it.

I think, on the contrary, that he is entitled to great praise and that he has handled the formidable and complex task confided to him with a high degree of ability, fine courage, indefatigable energy, and with the evident determination to keep the running of the railroads clear of politics and to make them above all things effective instruments in our war effort.

IV

For a concise statement of the results accomplished elsewhere under government ownership I would recommend you to obtain from the Public Printer, and to read, a short pamphlet entitled "Historical Sketch of Government Ownership of Railroads in Foreign Countries," presented to the Joint Committee of Congress on Interstate Commerce by the great English authority, Mr. W. M. Acworth. It will well repay you the half hour spent in its perusal. You will learn from it that, prior to the war, about fifty per cent. of the railways in Europe were state railways; that in practically every case of the substitution of government for private operation (with the exception, subject to certain reservations, of Germany) the

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service deteriorated, the discipline and consequently the punctuality and safety of train service diminished, politics came to be a factor in the administration and the cost of operations increased vastly. (The net revenue, for example, of The Western Railway of France in the worst year of private ownership was \$13,750,000, in the fourth year of government operation it fell to \$5,350,000.) He quotes the eminent French economist, Leroy-Beaulieu, as follows:

“One may readily see how dangerous to the liberty of citizens the extension of the industrial regime of the State would be, where the number of functionaries would be indefinitely multiplied. . . . From all points of view the experience of State railways in France is unfavorable as was foreseen by all those who had reflected upon the bad results given by the other industrial undertakings of the State. . . . The State, above all, under an elective government, cannot be a good commercial mana-

ger The experience which we have recently gained has provoked a very lively movement, not only against acquisition of the railways by the State, but against all extension of State industry. I hope . . . that not only we, but our neighbors also may profit by the lesson of these facts."

Mr. Acworth mentions as a characteristic indication that after years of sad experience with governmentally owned and operated railways, the Italian Government, just before the war, started on the new departure (or rather returned to the old system) of granting a concession to a private enterprise which was to take over a portion of the existing state railway, build an extension with the aid of state subsidies, *and then work on its own account both sections as one undertaking under private management.*

I may add, as a fact within my own knowledge, that shortly before the outbreak of the war the Belgian Government was studying the question of returning

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its state railways to private enterprise and management.

Mr. Acworth relates a resolution *unanimously* passed by the French Senate a few years after the State had taken over certain lines, beginning: "The deplorable situation of the State system, the insecurity and irregularity of its workings." He gives figures demonstrating the invariably greater efficiency, economy and superiority of service of private management as compared to State management in countries where these two systems are in operation side by side. He treats of the effect of the conflicting interests, sectional and otherwise, which necessarily come into play under government control when the question arises where new lines are to be built and what extensions to be made of existing lines.

He asks: "Can it be expected that

they (these questions) will be decided rightly by a minister responsible to a democratic legislature, each member of which, naturally and rightly, makes the best case he can for his own constituents, while he is quite ignorant, even if not careless, of the interests, not only of his neighbor's constituency, but of the public at large?" And he replied: "The answer is written large in railway history. . . . The facts show that Parliamentary interference has meant running the railways, not for the benefit of the people at large, but to satisfy local and sectional or even personal interests." He maintains that in a country governed on the Prussian principles railroad operation and planning may be conducted by the Government with a fair degree of success, as an executive function, but in democratic countries, he points out that in normal times "it is the legislative branch of the

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government which not only decides policy but dictates always in main outline, often down to the detail of a particular appointment or a special rate, how the policy shall be carried out.”

For corroboration of this latter statement we need only turn to the array of statutes in our own States, which not only fix certain railroad rates by legislative enactment, but deal with such details as the repair of equipment, the minimum movement of freight cars, the kind of headlights to be used on locomotives, the safety appliances to be installed, etc.—and all this in the face of the fact that these States have Public Service Commissions whose function it is to supervise and regulate the railroads.

The reason why the system of state railways in Germany was largely free from most, though by no means all, of the unfavorable features and results

produced by government ownership and operation elsewhere, is inherent in the habits and conditions created in that country by generations of autocratic and bureaucratic government. But Mr. Acworth points out very acutely that while German manufacturers, merchants, financiers, physicians, scientists, etc., "have taught the world a good deal in the twenty years preceding the war, German railway men have taught the world nothing." And he asks: "Why is this?" His answer is: "Because they were state officials, and, as such, bureaucrats and routiniers, and without incentive to invent and progress themselves or to encourage or welcome or even accept inventions and progress.

It is the private railways of England and France, and particularly of America, which have led the world in improvements and new ideas, whilst it would be

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difficult to mention a single reform or invention for which the world is indebted to the state railways of Germany."

The question of the disposition to be made of the railroads after the war is one of the most important and far-reaching of the post-bellum questions which will confront us. It will be one of the great test questions, the answer to which will determine whither we are bound.

V

And, it seems to me, one of the duties of business men is to inform themselves accurately and carefully on this subject, so as to be ready to take their due and legitimate part in shaping public opinion, and indeed to start on that task now, before public opinion, one-sidedly informed and fed of set purpose with adroitly colored statements of half truths, crystallizes into definite judgment.

My concern is not for the stock and bond holders. They will, I have no doubt, be properly and fairly taken care of in case the Government were definitely to acquire the railroads. Indeed, it may well be, that from the standpoint of their selfish interests, a reasonable guarantee or other fixed compensation by the Govern-

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ment would be preferable to the financial risks and uncertainties under private railroad operation in the new and untried era which we shall enter after the war. I know, indeed, that not a few large holders of railroad securities take this view and therefore have this preference.

Nor do I speak as one who believes that the railroad situation can be restored just as it was before the war. The function, responsibility and obligation of the railroads as a whole are primarily to serve the interests and economic requirements of the nation. The disjointed operation of the railroads, each one considering merely its own system (and being under the law practically prevented from doing otherwise) will, I am sure, not be permitted again.

The relinquishment of certain features of our existing legislation, the addition of others, a more clearly defined and pur-

poseful relationship of the nation to the railroads, involving amongst other things possibly some financial interest of the Government in the results of railroad operations, are certain to come from our experiences under Government operation and from a fresh study of the subject, in case the railroads, as I hope, are returned to private management.

Personally I believe that in its underlying principle, the system gradually evolved in America but never as yet given a fair chance for adequate translation into practical execution, is an almost ideal one. It preserves for the country, in the conduct of its railroads, the inestimable advantage of private initiative, efficiency, resourcefulness and financial responsibility, while at the same time through governmental regulation and supervision it emphasizes the semi-public character and duties of railroads, pro-

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tects the community's rights and just claims and guards against those evils and excesses of unrestrained individualism which experience has indicated.

It is, I am profoundly convinced, a far better system than government ownership of railroads, which, wherever tested, has proved its inferiority except, to an extent, in the Germany on which the Prussian Junker planted his heel and of which he made a scourge and a horrible example to the world; and the very reasons which have made state railways measurably successful in *that* Germany are the reasons which would make government ownership and operation in America a menace to our free institutions, a detriment to our racial characteristics and a grave economic disservice.

*PUNITIVE PATERNALISM
IN TAXATION*

I

*PUNITIVE PATERNALISM
IN TAXATION*

I have spoken of the treatment of our railroads in the past ten years as "punitive paternalism." In some respects this same term may be applied to our existing and proposed war taxation.

Of course, the burden of meeting the cost of the war must be laid according to capacity to bear it. It would be crass selfishness to wish it laid otherwise and fatuous folly to endeavor to have it laid otherwise.

We all agree that the principal single sources of war revenue must necessarily be business and accumulated capital, but these sources should not be used excessively and to the exclusion of others.

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The structure of taxation should be harmonious and symmetrical. No part of it should be so planned as to produce an unscientific and dangerous strain.

The science of taxation consists in raising the largest obtainable amount of needed revenue in the most equitable manner, with the least economic disturbance and, as far as possible, with the effect of promoting thrift.

The House Bill proposes to raise from income, excess or war profit and inheritance taxes \$5,686,000,000 out of an estimated total of \$8,182,000,000. In other words, almost seventy per cent. of our stupendous total taxation is to come from these few sources. It seems to me that the effect and meaning of this is to penalize capital, to fine business success, as well as thrift and self-denial practised in the past, thereby tending to discourage saving.

The House Bill fails, on the other hand, to impose certain taxes the effect of which is to promote saving. Intentionally or not, yet effectively, it penalizes certain callings and sections of the country and favors others.

Let me say at the outset that my criticism does not refer to the principle of an eighty per cent. war profits tax. Indeed, I have from the very beginning advocated a high tax on war profits. To permit individuals and corporations to enrich themselves out of the dreadful calamity of war is repugnant to one's sense of justice and gravely detrimental to the war morale of the people.

Strictly from the economic point of view, the eighty per cent. war profits tax is not entirely free from objection. Whether England did wisely, on the whole in fixing the tax at quite so high a rate is a debatable point, and is being questioned

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by some economists of high standing in that country, not from the point of view of tenderness for the beneficiaries from war profits, but from that of national advantage.

Moreover, conditions in America and England are not quite identical and I believe it to be a justifiable statement that British industry is better able to stand so high a tax than American industry, for reasons inherent in the respective business situations and methods.

However, everything considered, circumstances being what they are, I believe the enactment of the proposed eighty per cent. war profits tax to be expedient, provided that, like in England, the standard of comparison with pre-war profits is fairly fixed and due and fair allowance made, in determining taxable profits, for such bona fide items of depreciation and other write-offs as a reasonably conservative business

man would ordinarily take into account before arriving at net profits.

Amongst the principles of correct and effective taxation, which are axiomatic, are these:

1. No tax should be so burdensome as to extinguish or seriously jeopardize the source from which it derives its productivity. In other words, do not be so eager to secure every possible golden egg, that you kill the goose which lays them.

2. In war time, when the practice of thrift is of more vital importance than ever to the nation, one of the most valuable by-products which taxation should aim to secure is to compel reduction in individual expenditures.

3. Taxation should be as widely diffused as possible, at however small a rate the minimum contribution may be fixed, if only to give the greatest possible number of citizens an interest to watch governmental expenditure, and an incentive to curb governmental extravagance.

It may safely be asserted that our war taxation runs counter to every one of these tested principles.

II

The characteristic difference between the House Bill and the revenue measures of Great Britain (I am not referring to those of France and Germany, because they are incomparably less drastic than ours or Great Britain's) is, first, that we do not resort to consumption taxes and only to a limited degree to general stamp taxes, and, secondly, that our income tax on small and moderate incomes is far smaller, on large incomes somewhat smaller and on the largest incomes a great deal heavier.

The House rate of taxation on incomes up to, say, \$5,000, averages only one-fifth of what it is in England; the House rate of taxation on maximum incomes is approximately fifty per cent. higher than

it is in England. Moreover, married men with incomes of less than \$2,000 are entirely exempted from taxation in this country. In England all incomes from \$650 on are subject to taxation.

I believe, on the whole, our system of gradation is juster than the English system, but I think we are going to an extreme at both ends. And it must be borne in mind that our actual taxation of high incomes is not even measured by the rates fixed in the House Bill, because to them must be added State and municipal taxes. There must further be added what to all intents and purposes is, though a voluntary act, yet in effect for all right-minded citizens tantamount to taxation, namely, a man's habitual expenditures for charity and his contributions to the Red Cross and other war relief works.

The sentimental and thereby the actual

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effect of extreme income taxation is not confined to the relatively small number of people in possession of very large incomes directly affected by it. The apprehension caused by the contemplation of an excessively high ratio of taxation is contagious and apt to react unfavorably on constructive activity.

It is highly important that taxation should not reach a point at which business would be crippled, cash resources unduly curtailed and the incentive to maximum effort and enterprise destroyed. And it should not be forgotten that both theoretically and actually the spending of money by the Government cannot and does not have the same effect on the prosperity of the country as productive use of his funds by the individual.

If all the European nations have stopped during the war at a certain maximum limit of individual income and inheritance

taxation, even after four years of war, the reason is surely not that they love rich men more than we do or that they are all less democratic than we are. The reason is that these nations, including the financially wisest and most experienced, recognize the unwisdom and economic ill effect under existing conditions of going beyond that limit.

III

The same observations hold good in the case of our proposed inheritance taxation (maximum proposed here forty per cent., as against twenty per cent. maximum in England and much less in all other countries). And again there are to be added to Federal taxation the rates of state legacy and inheritance taxation.

Inheritance taxation, moreover, has that inevitable element of unfairness that it leaves entirely untouched the wastrel who never laid by a cent in his life, and penalizes him who practiced industry, self-denial and thrift. And it cannot be too often said that the encouragement of thrift and enterprise is of the utmost desirability under the circumstances in which the world finds itself, because it is

only by the intensified creation of wealth through savings and production that the world can be re-established on an even keel after the ravages and the waste of the war.

Furthermore, business men, of necessity, have only a limited amount of their capital in liquid or quickly realizable form, and through the absorption by the inheritance tax of a large proportion of such assets, many a business may find itself with insufficient current capital to continue operations after the death of a partner. This effect is not only unfair in itself, but is made doubly so, as being a discrimination in favor of corporations as against private business men and business houses, inasmuch as corporations are, of course, not amenable to inheritance taxation.

Whilst in the case of the rich we discourage saving by the very hugeness of our taxation, or make it impossible, we

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fail to use the instrument of taxation to promote saving in the case of those with moderate incomes. And the enormous preponderance of saving which could and should be effected does not lie within the possibilities of the relatively small number of people with large means, but of the huge number of people with moderate incomes.

Moreover, while the rich, in consequence of taxation, limitation of profits, etc., have become less able to spend freely since our entrance into the war, workingmen and farmers, through increased wages, steadier employment and higher prices of crops, respectively, have become able to spend more freely.

Workingmen are in receipt of wages never approached in pre-war times, many of them making incomes a good deal higher than the average professional man, while the profits of business, generally speaking, are rather on a declining scale

and certain branches of business have been brought virtually or even completely to a standstill.

Of our total national income, conservatively estimated at, say, \$40,000,000,000 for the last year before our entrance into the war, i. e., the year 1916, it is safe to say that not more than \$2,000,000,000 went to those with incomes of, say, \$15,000 and above, whilst \$38,000,000,000 went to those with lower incomes.

A carefully compiled statement issued by the Bankers Trust Company of New York estimates the total individual incomes of the nation for the fiscal year ending June 30, 1919, at about \$53,000,000,000, and calculates that families with incomes of \$15,000 or less receive \$48,250,000 of that total; or, applying the calculation to families with incomes of \$5,000 or less, it is found that they receive \$46,000,000,000 of that total.

V

Whilst the House Bill imposes luxury and semi-luxury taxes, it fails—as I have mentioned before—to resort to consumption taxes of a general kind—a deliberate but, in my opinion, unwarrantable omission.

My advocacy of consumption and similar taxes, such as stamp taxes of many kinds, is not actuated by any desire to relieve those with large incomes from the maximum of contribution which may wisely and fairly be imposed on them. I advocate consumption and general stamp taxes—such as every other belligerent country without exception has found it well to impose—because of the well attested fact that while productive of very large revenues in the aggregate, they

are easily borne, causing no strain or dislocation, and automatically collected; and because of the further fact that they tend to induce economy than which nothing is more important at this time and which, as far as I can observe, is not being practised by the rank and file of our people to a degree comparable to what it is in England and France.

The tendency of the House Bill is to rely mostly on heavy taxation—in some respects unprecedentedly heavy—of a relatively limited selection of items. I am—as I have already said—in favor of the highest possible war profits tax and of at least as high a rate of income and inheritance taxation during the war as exist in any other country. But apart from these and a few other items which can naturally support very heavy taxation, such, for instance, as cigars and tobacco, I believe that the maximum of

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revenue and the minimum of economic disadvantage and dislocation can be secured not by the very heavy taxation of a relatively limited selection, but by comparatively light taxation distributed over a vast number of items. I believe such taxes would be productive enough to make good the impending revenue losses from Prohibition.

I think, for instance, the imposition of a tax of one per cent. on every single purchase exceeding, say, two dollars (the tax to be borne by the purchaser, not by the seller) would be productive of a large amount of revenue and be harmful to none. A similar tax was imposed in the course of the Civil War and appears to have functioned so well and met with such ready acceptance that it was not repealed until several years after the close of that war.

There is apparently small limit to the

zeal of many politicians and others when it is a question of taxing business and business men, especially those guilty of success. We are, I believe, justified in inquiring to what extent there is a relation between this tendency and political considerations which ought to be remote from the treatment of economic subjects such as taxation.

Let us take, as an instance, the case of the farmer. I do not pretend to judge whether in these war times the farmers of the country are bearing an equitable share of taxation in proportion to other callings or not. I certainly recognize that they are entitled to be dealt with liberally, even generously, for I know the rigors of the farmers' life, the ups and downs of their industry's productivity, and fully appreciate that their work lies at the very basis of national existence. Everything that can fairly make for the con-

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tentment, well being and prosperity of the farmer is to be wholeheartedly welcomed and promoted.

Yet, we cannot avoid noticing that the average value of farm lands in this country is estimated to have increased between 1900 and 1918 more than 200 per cent., that the value of farm products has been vastly enhanced, but that according to the latest published details of income tax returns, the farmer contributes but a very small percentage to the total income tax collected. Of twenty-two selected occupations the farmers' class contributes the least in the aggregate, although it is numerically the largest class in the country.

Let it be clearly understood that I have not the remotest thought of suggesting "tax dodging" on the part of the farmers. I know well how fully they are doing their part towards winning the war, and am

entirely certain that they are just as ready to carry patriotically their due share of the financial cost of achieving victory as the splendid young fellows taken from the farms, many of whom I met in Europe, have been ready to bear their full share of the cost in life and limb of achieving victory.

The point of my question is not the action and attitude of the farmer. But here is a great industry exempt from the excess profit and war profit tax and apparently not effectively reached by the income tax, which is entirely natural, because in this case the income tax can neither be retained at the source nor are the large body of the farmers, many of whom do not keep and cannot be expected to keep books, in a position to determine their taxable income.

Is it conceivable that the politicians who are so rigorous in their watchfulness

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that no business profit shall escape the tax-gatherer, would not devise means to lay an effective tax if the same situation existed in a business industry?

The point of my question is, taking the case of the farmers as an instance, whether in framing our system and method of taxation, the steady aim has been to ascertain impartially what is equitable and wisely productive of revenue and to act accordingly, or whether considerations of the anticipated effect of taxation measures upon the fortunes of individual legislators or of their party, have been permitted unduly to sway their deliberations and conclusions.

IV

Turning aside from this interrogation mark, I will only add, in returning to our general scheme of taxation, that there are numerous taxes of a tried and tested and socially just kind—some of them applied in this country during the Civil War and the Spanish War—which would raise a very large amount of revenue and yet would be little felt by the individual. Some of them have been suggested to our legislators, but have not found favor in their eyes. Their non-imposition, taken together with the entire character of our taxation program, the burden of which falls to an enormously preponderant extent upon the mainly industrial States and the business classes, not only proportionately, which, of course, is just,

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but discriminatingly, which is not just, seems hardly explainable except on the theory that the intention of those who were primarily in charge of framing that program was punitive and corrective and that they were influenced—though I am willing to believe unconsciously—by sectional and vocational partiality.

The fact that the revenue bill was passed in the House by a unanimous vote does not mean, of course, that it met with unanimous approval on the part of Congressmen. The debate shows this. The bill, as reported after months of labor, either had to be approved practically as it stood or rejected and returned to the Committee. It is not possible for a body of 400 men to deal in a detailed manner with a subject so complex as a taxation measure of the magnitude of the present one.

The bill could not be made over or

materially amended in the House. In view of the urgency of the emergency and the vital need to raise the sum asked for by the Treasury, no patriotic course was open to the House but to accept the bill and pass it up to the Senate.

I know it is not popular to say things in criticism of war burdens of a financial nature. One's motives are liable to be misunderstood or misinterpreted and he is very apt to have it scornfully pointed out to him how small relatively is the sacrifice asked of him, compared with the sacrifice of position, prospects, and life itself, so willingly and proudly offered by the young manhood of the land.

It is a natural and effective rejoinder, but it is not a sound or logical one. Heaven knows, my heart goes out to our splendid boys, and my admiration for their conduct and achievements and my reverence for the spirit which animates

*PUNITIVE PATERNALISM
IN TAXATION*

them knows no bounds. But I am acquainted with hundreds of business men who bemoan their gray hair and their responsibilities, which prevent them from having the privilege of fighting our foe arms in hand.

And I know no American business man worthy of the name, who would not willingly give his life and all his possessions if the country's safety and honor required that sacrifice.

Gaylord Bros.
Makers
Syracuse, N. Y.
PAT. JAN. 21, 1908

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